

# PERMISSIBLE EXPENDITURES AND STRATEGIES TO COMPLY



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# What's on Tap?

## ❑ **Permissible Expenditures**

- **Generally:**
  - Michigan Constitution
  - General Statutory Powers
- **Source Limitations:**
  - General Operating Fund
  - Sinking Fund
  - Bond Fund
- **Use Limitations.**
- **Specific Prohibitions.**
- **Booster and Other School Affiliated Groups.**
- **Michigan Campaign Finance Act.**



## ❑ **Strategies to Comply.**

## ❑ **Questions?**

## Permissible Expenditures: Generally

- ❑ **Three Part Inquiry For Determining Whether Expenditure Is Permissible:**
  - What are the **powers** school district's have to expend funds?
  - What are the specific **source and use limitations** or **specific prohibitions** on expenditures?
  - What is provided for in the school board approved **budget**?

# Permissible Expenditures: Michigan Constitution

## Article VIII, Section 2

Sec. 2. The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law. . .

No public monies or property shall be appropriated or paid or any public credit utilized, by the legislature or any other political subdivision or agency of the state directly or indirectly to aid or maintain any private, denominational or other nonpublic, pre-elementary, elementary, or secondary school.

## Article IX, Section 18

Sec. 18. The credit of the state shall not be granted to, nor in aid of any pension, association or corporation, public or private, except as authorized in this constitution.

# Permissible Expenditures: General Statutory Powers

## General Powers School District

- ❑ School districts have **express** powers, and may exercise those powers that are **implied** or **incidental** to those express powers, and may also exercise a power incidental or appropriate to the performance of any function related to the operation of the school district in the **interest of public elementary and secondary education** within the school district. MCL 380.11a
- ❑ Requirement of an “**Educational Nexus**”



## “Educational Nexus”

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### Our definition...

Unless some specific **limitation** or **prohibition** has been placed on expenditures from the General Fund, so long as there is a reasonable “**educational nexus**” between the expenditure and the performance of any function related to the operation of a school district in the interests of public elementary and/or secondary education in the school district, the expenditure from the General Fund is **allowed**.

## Source Limitations

- **General Operating Fund:**
  - State School Aid
  - Property Taxes
  - Other Sources
- **Building and Site Sinking Fund Proceeds**
- **Bond Proceeds**



# Source Limitations: General Operating Fund

## State School Aid

- **Section 1618 of the School Aid Act provides as follows:**  
[School districts]... shall apply the money received by the district or entity under this article to salaries and other compensation of teachers and other employees, tuition, transportation, lighting, heating, ventilation, water service, the purchase of textbooks which are designated by the board to be used in the schools under the board's charge, other supplies, **and any other school operating expenditures defined in Section 7.**
  
- **Section 7 further defines “any other school operating expenditures” as follows:**  
Costs for school operating purposes **include all expenditures necessary to carry out the powers of the district or intermediate district** under the revised school code.

## Source Limitations: General Operating Fund

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### Property Taxes

Section 1211 of the School Code enables School Districts to levy millage “**for school operating purposes**” and Section 1216 provides that monies “**raised by tax shall not be used for a purpose other than that for which it was raised without the consent of a majority of the school electors**”.

## Source Limitations: General Operating Fund

### Other Sources

- ❑ **Federal appropriations** (e.g., Title I Funds, etc.)
- ❑ **Grant funding**
- ❑ **Gifts** – MCLA 380.15
  - “school district may receive, own, and enjoy a gift ... that is made for **school purposes** under this act.”
- ❑ **Other?**

## Source Limitations: Building and Site Sinking Fund

### Allowable Use of a Building and Site Sinking Fund

- ❑ Purchase of real estate for sites for, and the construction or repair of, school buildings.
- ❑ NO EQUIPMENT OR FURNISHINGS.
- ❑ NO MAINTENANCE.
- ❑ Maintenance – keeping in good condition – preventative.
- ❑ Repair – putting back in good condition – curative.
- ❑ School Security Improvements - *NEW*
- ❑ Acquisition or upgrading of technology - *NEW*

## Source Limitations: Bond Proceeds

### Allowable Use of Bond Proceeds

- ❑ Capital improvements and purchases – MCL 380.1351a
- ❑ Definition of “technology”
- ❑ Software?
- ❑ **Cannot** use bond proceeds for:
  - Maintenance;
  - Repairs;
  - Lease payments;
  - Employee salaries; and
  - Automobiles, trucks or vans.

## Use Limitations

- **Gifts** – MCL 380.15
- **Third-Party Contracting** – MCL 380.11a(4) and 380.601a(2)
- **Investment Income** – MCL 380.1223
- **Tax Deferred Annuity** - 380.1224
- **Merit Pay** – MCL 380.1250
- ❖ **Miscellaneous Expenses** – MCL 380.1254
- **Insurance** - MCL 380.1269
- **Purchasing** – MCL 380.1274
- **Transportation** – MCL 380.1321 et. seq.
- **Professional Development** – MCL 380.1525



## Use Limitations: Miscellaneous Expenses

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### Section 1254 of the School Code provides that:

“... school district may pay **actual and necessary** expenses incurred by its board members and employees in the discharge of official duties or in the performance of functions authorized by the board.”

## Use Limitations: Miscellaneous Expenses

### **Section 1254 further provides as follows:**

- Expenses incurred by a board member must be approved in advance by the board and must be consistent with the board's adopted policy on categories of reimbursable expenses.
- Prohibits a board from issuing board members credit cards or debit cards that pledge payment of funds from a school district account except in compliance with law.

## Specific Prohibitions

- **Alcohol, jewelry, gifts, golf fees and other illegal items** – MCL 380.1814
- **Extra Compensation** – Article II, Section 3 of the Michigan Constitution
- **Non-Sectarian Schools** – MCL 380.1217
- **Foreign Goods** – MCL 388.1764c
- **Rental Cars & Chauffeurs** – MCL 380.1217a and 388.1764
- **Performance-Enhancing Drugs** – MCL 380.1318
- **ISD Specific Legislation** – MCL 380.634
- **Mercury** – MCL 380.1274b

## Specific Prohibitions

### **Section 1814 of School Code provides as follows:**

- Prohibits the use of school district funds to purchase alcoholic beverages, jewelry, gifts, golf fees, or any items that cannot be legally purchased or possessed.
- Violation is a misdemeanor punishable by imprisonment up to 93 days and/or a fine.
- Violator subject to restitution.

## Michigan Department of Treasury: Determining Lawful Expenditures

### Coffee/Meals

“The purchase of coffee, donuts and sandwiches first must be for a public, not an individual or private group or purpose. These expenditures for use at a regular or special meetings, for fire fighters, volunteer or full time employees, when working an extended period of time or when dedicating public buildings are normally considered expenditures for a public purpose.

Coffee and donuts for employees use during normal working hours is considered personal, not for a public purpose, and improper unless specifically provided for in a collective bargaining agreement or duly adopted employment policy of the governmental unit (fringe benefit).”

## Michigan Department of Treasury: Determining Lawful Expenditures

### Lawful Expenditures by a Governmental Unit

Contracts with public or private, profit or nonprofit organizations for a specific public service or benefit that the unit can legally perform and money is available within the budgeted appropriations.

Membership dues to governmental associations.

Meals and refreshments during authorized seminars of an educational nature to officials and employees.

Registration fee, lodging and travel for attendance at useful public informational or educational workshops and seminars.



### Unlawful Expenditures by a Governmental Unit

- Contributions to churches, veterans, non-profit organizations
- Donations to community organizations
- Office refreshments, picnics
- Retirement recognition gifts and/or events
- Flowers to the sick or departed

## Booster and Other School Affiliated Groups

- ❑ **Trust Funds:**
  - School District acts as trustee
  - Endowments, gifts and bequests
- ❑ **Agency Funds:**
  - Custodial account
  - Student activity funds and other school organizations such as parent booster clubs
- ❑ **Restrictions on Use of Funds?**

## Michigan Campaign Finance Act (“MCFA”)

- School districts are prohibited from spending public funds or using other resources for **campaign activities, including the election or defeat of candidates or ballot proposals.**
- School districts **cannot advocate for a ballot proposal but may use its resources to inform** (i.e. factual information).

# Michigan Campaign Finance Act (“MCFA”)

**The MCFA carves out several exceptions to the rule against using public resources for political expression which include the following:**

- (a) The expression of views by an elected or appointed public official who has policymaking responsibilities.
- (b) The production or dissemination of factual information concerning issues relevant to the function of the public body.
- (c) The production or dissemination of debates, interviews, commentary, or information by a broadcasting station, newspaper, magazine, or other periodical or publication in the regular course of broadcasting or publication.
- (d) The use of a public facility owned or leased by, or on behalf of, a public body if any candidate or committee has an equal opportunity to use the public facility.

\* \* \*

- (f) An elected or appointed public official or an employee of a public body who, when not acting for a public body but is on his or her own personal time, is expressing his or her own personal views, is expending his or her own personal funds, or is providing his or her own personal volunteer services.

## Strategies to Comply

- ❑ **Board Policy:**
  - Specific Board Policy may be required in certain circumstances.
  - Board Policy may be more restrictive than the law.
- ❑ **Approve budget with category/amount for miscellaneous expenditures**
- ❑ **Prior Approval of Expenditures**
- ❑ **Educate Staff on Legal Boundaries of Prohibited Expenditure**
- ❑ **Be Aware of Purchasing Cards:**
  - In addition to credit card policy required under MCL 129.243, make policy clear that any unauthorized use of credit card is liability of employee.
- ❑ **Conduct Regular Internal Audits**

## THANK YOU! Any Questions?



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